

South Carolina Retirement Systems

A Division of the South Carolina State Budget and Control Board

Popular Annual Financial Report



For the Fiscal Year Ended June 30, 2004

Pension Trust Funds of the State of South Carolina

Serving South Carolina's Public Workforce

Popular Annual Financial Report

Pension Trust Funds of the State of South Carolina

For the Fiscal Year Ended June 30, 2004

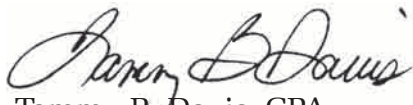
South Carolina Retirement Systems

A Division of the South Carolina Budget and Control Board

To Our Members

We are pleased to present to you our second annual popular report. This report is intended to provide a summary of annual financial information in an easily understandable format that supplements our more thorough *Comprehensive Annual Financial Report (CAFR)*. Data presented in this report was derived from our *CAFR*, which was prepared in accordance with Generally Accepted Accounting Principles. If you would like more information concerning our financial activities, please visit our Web site at www.retirement.sc.gov. Our *CAFR* may be viewed or downloaded from our Web site or you may obtain a printed copy by submitting a written request to our office at the address below. For any other questions or assistance, please contact Customer Services at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov.


Peggy G. Boykin, CPA, CRA
Division Director


Tammy B. Davis, CPA
Assistant Director, Financial Services

South Carolina Retirement Systems

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Profile

South Carolina Retirement Systems

The South Carolina Retirement Systems administers four defined benefit pension plans that provide lifetime retirement annuities, disability benefits and death benefits to eligible members. The plans' terms specify the amount of pension benefits to be provided at a future date or after a certain period of time. The



Teacher Donna Childers is surrounded by her second graders during class at Grassy Pond Elementary School in Gaffney, South Carolina.

amount specified is a function of a formula based on years of service, compensation and age. The Retirement Systems also administers a defined contribution retirement plan (the State Optional Retirement Program) which is an alternative to membership in the traditional defined benefit plan. The five retirement plans administered by the Retirement Systems are as follows:

- The South Carolina Retirement System (**SCRS**) was established July 1, 1945, to provide retirement and other benefits for teachers and employees of the state and its political subdivisions.
- The State Optional Retirement Program (**State ORP**) was first established as the Optional Retirement Program for Higher Education in 1987. The State ORP is an alternative to the defined benefit SCRS plan and is offered

to certain state, public school and higher education employees of the state.

- The Police Officers Retirement System (**PORS**) was established July 1, 1962, to provide retirement and other benefits to police officers and firefighters.
- The Retirement System for Members of the General Assembly of the State of South Carolina (**GARS**) was established January 1, 1966, to provide retirement and other benefits to members of the General Assembly.
- The Retirement System for Judges and Solicitors of the State of South Carolina (**JSRS**) was established July 1, 1979, to provide retirement and other benefits to State Judges and Solicitors.

The mission of the South Carolina Retirement Systems is to administer a comprehensive program of retirement benefits responsive to the needs of public employees and to perform fiduciary duties as stewards of the contributions and disbursements of the pension trust funds.

Our vision is to empower our employees to provide comprehensive service in a professional manner for our members, employers, and retirees through timely and accurate processing of payments, claims, inquiries, and other account information using effective and appropriate leading edge technology.



Employees in the Retirement Systems' Customer Services Call Center handle myriad inquiries each work day. Above, left to right, Karen McAdoo-Long, Sharon Boatwright, and Maria Cole work together to resolve an inquiry involving a member's multiple retirement accounts.

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As of July 1, 2003, the date of our most recent complete actuarial valuation, our membership and annuitant population was composed of the following:

Membership and Annuitant Composition As of July 1, 2003

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System
Total Membership				
Active	185,538	23,871	212	128
Inactive	142,245	8,965	68	4
Retirees & Beneficiaries	84,420	8,427	294	130
Active Members				
Average Age	44	39	52	54
Average Years of Service	10	8	10	17
Average Annual Salary	\$33,636	\$33,530	\$22,902	\$111,266
Annuitants and Beneficiaries				
Average Current Age	68	62	72	69
Average Years of Service at Retirement	23	18	19	24
Average AFC ¹ at Retirement	\$30,494	\$32,013	\$17,575	\$80,898
Average Current Annual Benefit	\$15,842	\$15,784	\$17,983	\$63,654

¹Average Final Compensation, a component used in the formula and calculation of annuity benefits.



The Retirement Systems' Information Technology Department includes a workroom where programmers work on special projects. From left to right: Rosalyn Nance, Rizwan Ahmed, Darryl Twiggs, Ian Davison, Diane Brown, and Eddie Sykes.

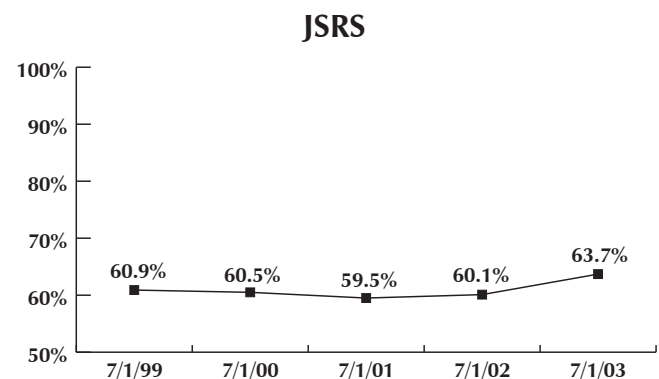
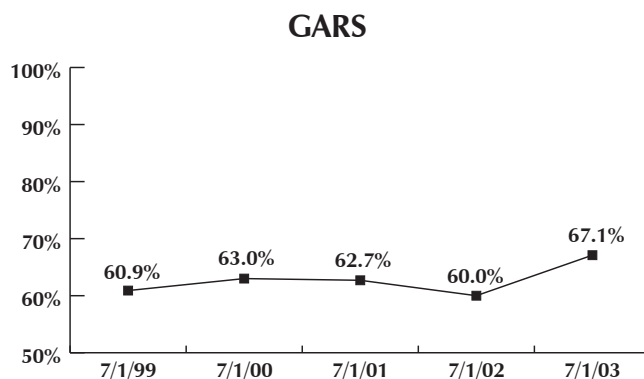
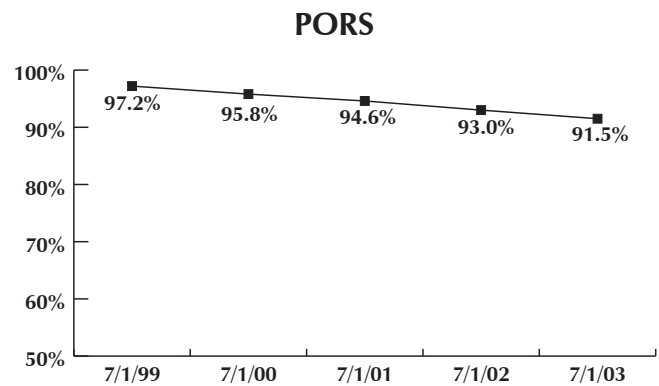
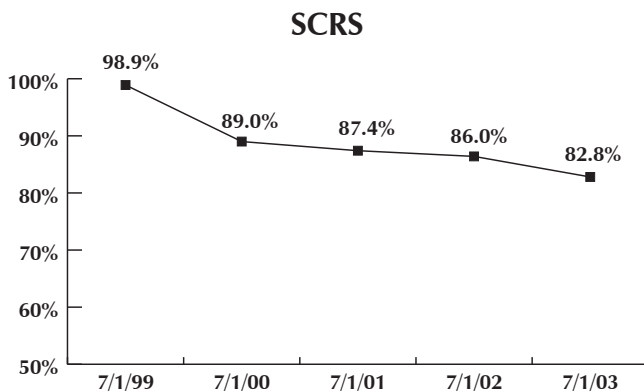
Our most recent actuarial valuations confirm that your retirement plan is sound and in good condition. Our defined benefit pension plans provide guaranteed lifetime annuities to retirees and beneficiaries based on years of service and a legislatively adopted benefit formula. We judge the health of our system through actuarial valuations. Our actuarial consultants estimate our future liabilities and our future assets based on a variety of assumptions commonly accepted in the actuarial industry. The actuaries then estimate what portion of our future liabilities are not yet funded and how long it will take to fund them at current rates. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liability (funded ratio).

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Governmental accounting standards require that the maximum acceptable amortization period for the total unfunded actuarial liability is 30 years. As of the July 1, 2003, actuarial valuation, all four systems are considered adequately funded within Governmental Accounting Standards Board (GASB) standards. The current funded ratios of the four plans range from 63.7 percent to 91.5 percent, and the unfunded liability amortization period ranges from 11 to 27 years. The funded ratios of the individual plans vary because each system is a separate plan with unique contribution and benefit levels. The following charts illustrate funded ratios over the past five years.

Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)



In order to ensure the Retirement Systems' ability to properly fund the payments of retirement benefits to members in future years, it is necessary to accumulate funds on a regular and systematic basis. The principal sources from which the Systems receives revenues are employee contributions, employer contributions and earnings on investments. Expenses of the Systems consist primarily of payments of monthly annuities to retired members and their beneficiaries and refunds of member contributions paid upon termination. Other programs administered by the Systems include a group life insurance plan for both active and retired members and an accidental death plan for police officers. Condensed financial statements for the fiscal year ended June 30, 2004, are as follows (pages 4-6):

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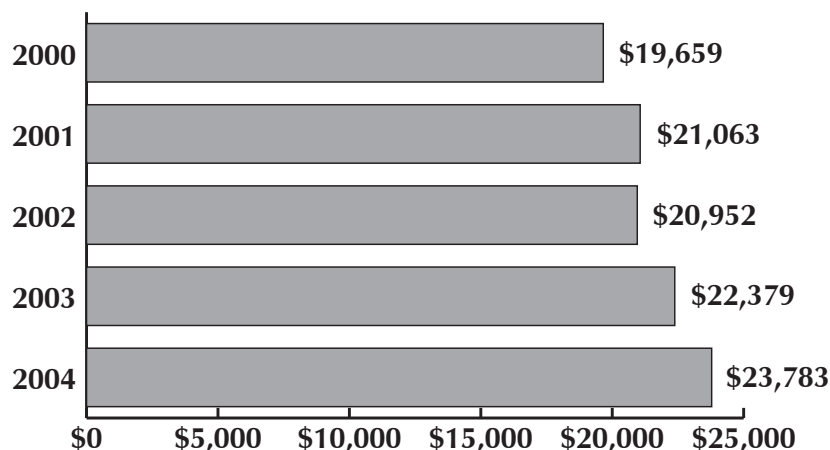
The *Statement of Plan Net Assets* presents the Plan's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snap shot of the Plan's investments, at market value, along with cash and short-term investments, receivables, and other assets and liabilities.

Plan Net Assets June 30, 2004 and 2003 (Amounts expressed in thousands)

	2004	2003	Percentage Increase/ Decrease
Assets			
Cash & Cash Equivalents, Receivables, and Prepaid Expenses	\$ 3,087,343	\$ 3,173,518	(2.74%)
Total Investments, at fair value	21,427,345	19,694,444	8.80%
Securities lending cash collateral invested	3,698,749	3,912,893	(5.47%)
Property, net of accumulated depreciation	3,933	4,052	(2.94%)
Total Assets	<u>28,217,370</u>	<u>\$26,784,907</u>	5.35%
Liabilities			
Deferred retirement benefits	\$ 649,385	\$ 424,906	52.83%
Obligations under securities lending	3,698,749	3,912,893	(5.47%)
Other accounts payable	86,497	67,738	26.71%
Total Liabilities	<u>4,434,631</u>	<u>4,405,537</u>	0.65%
Total Net Assets	<u><u>\$23,782,739</u></u>	<u><u>\$22,379,370</u></u>	6.27%

The following graph reflects Plan Net Asset values over the past five years:

Plan Net Assets Last Five Fiscal Years (Amounts expressed in millions)



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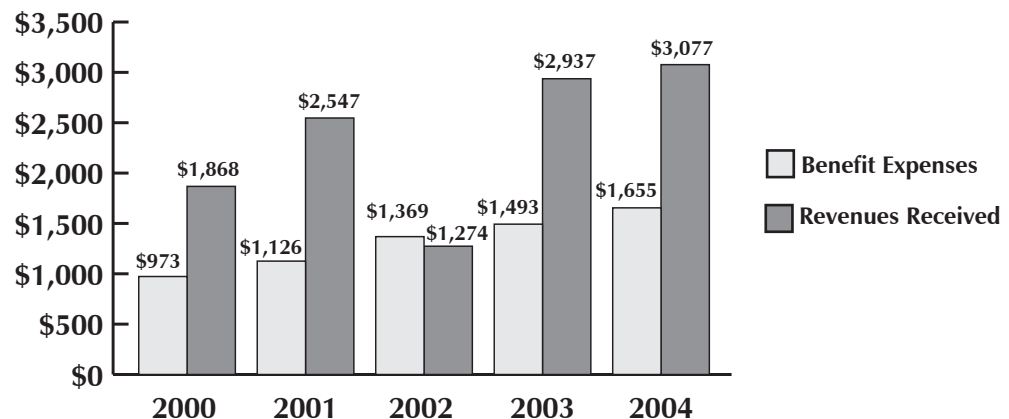
The *Statement of Changes in Plan Net Assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the year. This statement includes additions for contributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, group life insurance payments and administrative expenses.

Changes in Plan Net Assets For the Years Ended June 30, 2004 and 2003 (Amounts expressed in thousands)

	2004	2003	Percentage Increase/ Decrease
Additions			
Employee Contributions	\$ 473,688	\$ 465,709	1.71%
Employer Contributions	612,727	607,499	0.86%
Investment Income	1,985,109	1,859,758	6.74%
Other Income	5,232	4,350	20.28%
Total Additions	<u>3,076,756</u>	<u>2,937,316</u>	4.75%
Deductions			
Total Annuities	1,561,371	1,405,309	11.11%
Refunds	78,423	71,657	9.44%
Group Life	15,202	16,366	(7.11)%
Administrative & other expenses	18,391	16,170	13.74%
Total Deductions	<u>1,673,387</u>	<u>1,509,502</u>	10.86%
Increase (Decrease) in Net Assets	<u>1,403,369</u>	<u>1,427,814</u>	(1.71)%
 Beginning Net Assets	 <u>22,379,370</u>	 <u>20,951,556</u>	 6.81%
Ending Net Assets	<u><u>\$23,782,739</u></u>	<u><u>\$22,379,370</u></u>	6.27%

The following graph represents benefit expenses paid and revenues received from all sources over the past five years:

Summary of Benefit Expenses and Revenues Five Years Ending June 30, 2004 (Amounts expressed in millions)

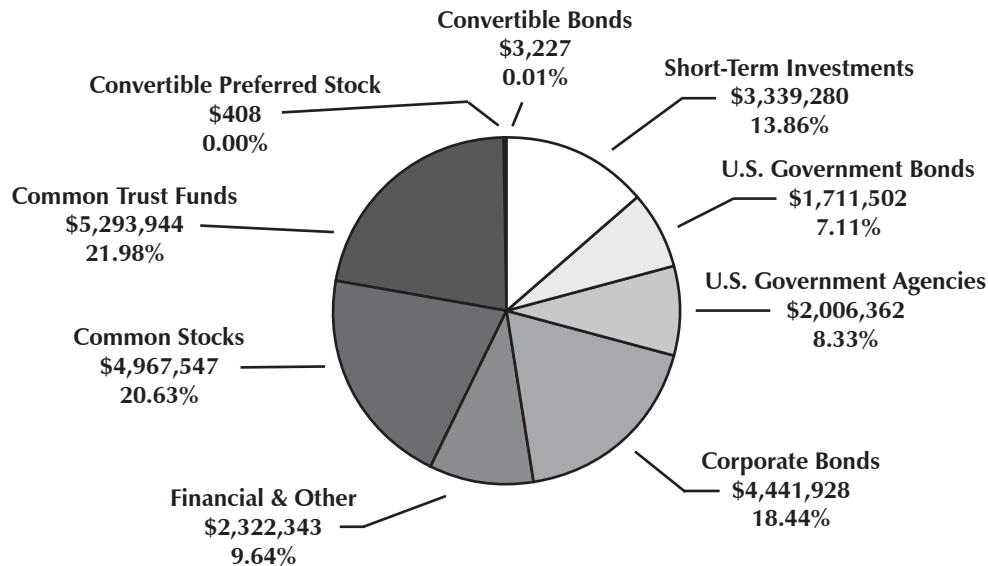


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We have a diversified investment portfolio that is designed to provide long-term returns. The State Treasurer, as custodian of our assets, and the Investment Panel work diligently to ensure our investment strategy is pragmatic and conservative while providing competitive returns. For the year ended June 30, 2004, the Systems combined investment portfolio produced a total return, net of fees, of 8.76 percent, compared to a combined return of 8.9 percent for fiscal year 2003. Our investment return exceeded our assumed actuarial investment return of 7.25 percent, which will have a positive effect on the next actuarial valuation of the Systems.

The following graph illustrates the types and amounts of investments held by the Systems at June 30, 2004.

South Carolina Retirement Systems Schedule of Asset Allocation Market Value as of June 30, 2004 (Dollar amounts expressed in thousands)



Below is a summary of our financial highlights for fiscal year 2004:

- Plan net assets of the four pension trust funds administered by the South Carolina Retirement Systems increased by \$1.4 billion during fiscal year 2004. This increase was due primarily to this year's positive equity market environment, which contributed to our combined investment return of 8.76 percent for the total portfolio of our pension plans.
- The Teacher and Employee Retention Incentive (TERI), our deferred retirement option program, continued to experience great popularity among our membership during fiscal year 2004. The amount of assets held in trust for future payments of accrued benefit expenses increased to \$649 million during the fiscal year. This increase is a result of both the addition of more than 4,000 new program participants during the fiscal year and the continued monthly accumulation of deferred benefits for all participants. Legislative bills aimed at repealing the TERI program have been proposed in the SC General Assembly during the past two fiscal years; however, no action has been taken on these bills. The threat of possible repeal has continued to contribute to the large number of new participants taking advantage of the TERI program.
- The State Optional Retirement Program (ORP) is a defined contribution plan that is administered by the South Carolina Retirement Systems. State ORP serves as an alternative to membership in the

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traditional South Carolina Retirement System (SCRS), which is a defined benefit plan. Employees hired into positions with state agencies, institutions of higher education, and public school districts may elect within 30 days of their date of hire to participate in State ORP. The program was expanded this fiscal year to include eligibility for both full and part-time employees. Also, during a



Sergeant David Hayes of the Great Falls (South Carolina) Police Department takes time out of his busy schedule to speak with local residents.

special open enrollment period, all existing ORP participants were offered a one-time irrevocable option to convert their membership from ORP to SCRS. Upon joining SCRS, members also have an opportunity to purchase service credit in SCRS for their period of participation in ORP. ORP service may be purchased at the rate of 16 percent of current or career highest salary for each year purchased and is considered “earned” service for purposes of meeting the 5 year earned service requirement for retirement eligibility.

- Although the number of active members contributing to the South Carolina Retirement Systems decreased in fiscal year 2004 when compared with the prior year, the actual workforce of covered employers throughout the state grew

slightly. This resulted from increased State ORP participation and an increased number of working retirees who are either participating in the TERI program or who have terminated employment and returned to work under the earnings limitation. Under current state statute, a retired member of SCRS who has been retired for at least 60 days may return to employment covered under the system and earn up to \$50,000 a fiscal year without affecting the monthly retirement benefit. Under PORS, a member who has been retired for at least 15 consecutive calendar days may return to covered employment without affecting the monthly retirement benefit.

- The South Carolina Retirement Systems Claims Procedures Act was implemented July 1, 2003. This Act creates a more efficient and fair procedure for administrative and disability retirement claim disputes. The Act sets forth a one-year statute of limitations, limits retroactive relief to one year and prohibits class action lawsuits.
- An indemnification bill was also approved by the Legislature. This bill provides for state defense against claims or suits for members of the SC Budget and Control Board, officers, management, legislative employees, and SC Retirement System investment panel members.



Columbia, South Carolina Firefighters

- In an effort to improve fraud risk management, the Retirement System implemented positive pay banking services. On a nationwide basis, losses from check fraud and other illegal activities have increased at an alarming rate; therefore, we worked with our bank to implement processes to help monitor checks clearing our accounts and to identify potentially fraudulent items.

2004 Popular Annual Financial Report

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the South Carolina Retirement Systems for its *Popular Annual Financial Report* for the fiscal year ended June 30, 2003. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report in which the content conforms to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements and we are submitting it to GFOA.

Award for Outstanding Achievement in Popular Annual Financial Reporting

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SOUTH CAROLINA RETIREMENT SYSTEMS

For the fiscal year ending
June 30, 2003



Nancy L. Ziehl
President

Jeffrey L. Esser
Executive Director



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South Carolina Senate Chamber

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Governing Board - SC State Budget and Control Board

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Mr. Blaine Ewing, III
Ms. Mary M. Kennemur
Mr. S. Hunter Howard

Equity Investment Consultant

Mercer Investment Consulting, Inc.

Consulting Actuary

Gabriel, Roeder, Smith & Company

Retirement Systems Staff

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Nancy E. Shealy	General Counsel – Investment Panel
Travis Turner, CPA	Internal Auditor
Brian Collett	Investment Research Analyst

Administration

Dianne T. Poston	Assistant Director
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Alice R. Copeland, CRA	Assistant Director
Lauren Chandler	Manager – Annuity Claims
Chris Pastelak	Manager – Refunds
Jeff Argondizzo	Manager – Death Claims
Marilyn Abrams	Manager – Call Center
Joe Stone	Manager – Customer Consultation Intake
Donnie Fulmer	Manager – Visitors' Center

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Tammy B. Davis, CPA	Assistant Director
Sarah Niegsch, CPA	Manager – Accounting
Sharon Graham, CPA	Manager – Payroll
Maggie Hendry	Manager – Average Final Compensation

Information Services

Michael E. Nivens	Assistant Director
Lisa M. Phipps	Information Technology Manager
Randy Byars	Information Resource Consultant

Service Credit

Amanda J. Green	Assistant Director
Sharon Pigage	Manager – Service Audit



In addition to juggling duties as Dean of the University of South Carolina-Lancaster, Dr. John Catalano still finds time for the classroom, his first love.



South Carolina Supreme Court Building Court Room

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